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American Institute of Certified Public Accountants. Auditing Standards Division

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**Statement of
Position**

88-2

**Illustrative Auditor's Reports
on Financial Statements of
Employee Benefit Plans
Comporting With Statement on
Auditing Standards No. 58,
*Reports on Audited
Financial Statements***

December 15, 1988

**Issued by
Auditing Standards Division**

**American Institute of
Certified Public Accountants**

AICPA

NOTE

This statement of position amends the illustrative auditor's reports contained in paragraphs 12.3 through 12.20 of the audit and accounting guide *Audits of Employee Benefit Plans*. The illustrative auditor's reports presented in this statement of position have been prepared to present the standard auditor's reports on financial statements of employee benefit plans in accordance with Statement on Auditing Standards No. 58, *Reports on Audited Financial Statements*.

These reports may be addressed to the plan or the trust whose financial statements are being audited, or to the plan administrator or board of trustees, or to participants and beneficiaries.

The Employee Benefit Plans Committee has requested an opinion from the Department of Labor (DOL) that an auditor does not have to expressly refer to the consistency of application of generally accepted accounting principles in order to comply with DOL regulation 29 CFR subsection 2520.103-1 when the auditor has in fact ascertained that there has been no accounting change. It is our understanding that the DOL is inclined to favorably consider this request.

The DOL has proposed changes to Form 5500 and related regulations changing the 3 percent threshold to 5 percent for 1988 reporting. Accordingly, the auditor should review the DOL's regulations for possible changes in the criteria for disclosing reportable transactions.

This statement is effective for reports issued or reissued on or after January 1, 1989. Earlier application of the provisions of this statement is permissible.

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1211 Avenue of the Americas, New York, N.Y. 10036-8775

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Illustration of Auditor's Report on Financial Statements of a Defined Benefit Plan Assuming End-of-Year Benefit Information Date*

Independent Auditor's Report

Addressee:

We have audited the accompanying statements of net assets available for benefits and of accumulated plan benefits of XYZ Pension Plan as of December 31, 19X2, and the related statements of changes in net assets available for benefits and of changes in accumulated plan benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Plan as of December 31, 19X2, and the changes in its financial status for the year then ended in conformity with generally accepted accounting principles.

[Signature of Firm]

[City and State]

[Date]

* Revision of illustrative report on page 84, paragraph 12.3, of the AICPA audit and accounting guide *Audits of Employee Benefit Plans*.

Illustration of Auditor's Report on Financial Statements of a Defined Benefit Plan Assuming Beginning-of-Year Benefit Information Date*

Independent Auditor's Report

Addressee:

We have audited the accompanying statements of net assets available for benefits of XYZ Pension Plan as of December 31, 19X2 and 19X1, and the related statements of changes in net assets available for benefits for the years then ended and the statement of accumulated plan benefits as of December 31, 19X1, and the related statement of changes in accumulated plan benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Plan as of December 31, 19X1, and the changes in its financial status for the year then ended and information regarding net assets available for benefits and changes therein as of and for the year ended December 31, 19X2 in conformity with generally accepted accounting principles.

[Signature of Firm]

[City and State]

[Date]

* Revision of illustrative report on page 85, paragraph 12.3, of the AICPA audit and accounting guide *Audits of Employee Benefit Plans*.

Illustration of Auditor's Report on Financial Statements of a Defined Contribution Plan*

(The following is an illustration of an auditor's report with an unqualified opinion on the financial statements of a profit-sharing plan.)

Independent Auditor's Report

Addressee:

We have audited the accompanying statement of net assets available for plan benefits of XYZ Company Profit-Sharing Plan as of December 31, 19X1, and the related statement of changes in net assets available for plan benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for plan benefits of the Plan as of December 31, 19X1, and the changes in net assets available for plan benefits for the year then ended in conformity with generally accepted accounting principles.

[Signature of Firm]

[City and State]

[Date]

* Revision of illustrative report on pages 85 and 86, paragraph 12.4, of the AICPA audit and accounting guide *Audits of Employee Benefit Plans*.

Illustration of Auditor's Report on Financial Statements of a Health and Welfare Benefit Plan*

(The following is an illustration of an auditor's report with an unqualified opinion on the financial statements of an employee health and welfare benefit plan.)

Independent Auditor's Report

Addressee:

We have audited the accompanying statement of net assets of Bizco Corporation Employee Health and Welfare Benefit Plan as of December 31, 19X1, and the related statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Plan as of December 31, 19X1, and the changes in net assets for the year then ended in conformity with generally accepted accounting principles.

[Signature of Firm]

[City and State]

[Date]

* Revision of illustrative report on page 86, paragraph 12.5, of the AICPA audit and accounting guide *Audits of Employee Benefit Plans*.

Supplemental Schedules Relating to ERISA and DOL Regulations*

(When the auditor's report covers additional information and the auditor has applied auditing procedures and is expressing an opinion on the additional information, a separate paragraph of the report might be worded as follows:)

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of (identify) are presented for purposes of complying with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 and are not a required part of the basic financial statements. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

* Revision of illustrative report on pages 87 and 88, paragraph 12.8, of the AICPA audit and accounting guide *Audits of Employee Benefit Plans*.

Illustration of Auditor's Report on Non-GAAP-Basis Financial Statements*

(The following is an illustration of an auditor's report on the financial statements of a defined benefit pension plan prepared on a modified cash basis.)

Independent Auditor's Report

Addressee:

We have audited the accompanying statements of net assets available for plan benefits (modified cash basis) of XYZ Pension Plan as of December 31, 19X2 and 19X1, and the related statement of changes in net assets available for plan benefits (modified cash basis) for the year ended December 31, 19X2. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note X, the Plan's policy is to prepare its financial statements and supplemental schedules on a modified cash basis of accounting, which differs from generally accepted accounting principles. Accordingly, the accompanying financial statements and schedules are not intended to be presented in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of XYZ Pension Plan as of December 31, 19X2 and 19X1, and the changes in its financial status for the year ended December 19X2, on the basis of accounting described in Note X.

(continued)

* Revision of illustrative report on page 89, paragraph 12.12, of the AICPA audit and accounting guide *Audits of Employee Benefit Plans*.

Illustration of Auditor's Report on Non-GAAP-Basis Financial Statements

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules (modified cash basis) of (1) assets held for investment, (2) transactions in excess of X percent of the current value of plan assets, and (3) investments in loans and fixed income obligations in default or classified as uncollectible as of or for the year ended December 31, 19X2, are presented for purposes of complying with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 and are not a required part of the basic financial statements. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

[Signature of Firm]

[City and State]

[Date]

**Illustration of Auditor's Report
on Financial Statements—
Limited-Scope Audits Under DOL Regulations***

Independent Auditor's Report

Addressee:

We were engaged to audit the financial statements and schedules of XYZ Pension Plan as of December 31, 19X1 and for the year then ended, as listed in the accompanying index. These financial statements and schedules are the responsibility of the Plan's management.

As permitted by Section 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note X, which was certified by ABC Bank, the trustee of the Plan, except for comparing the information with the related information included in the 19X1 financial statements and supplemental schedules. We have been informed by the plan administrator that the trustee holds the Plan's investment assets and executes investment transactions. The plan administrator has obtained a certification from the trustee as of and for the year ended December 31, 19X1 that the information provided to the plan administrator by the trustee is complete and accurate.

Because of the significance of the information that we did not audit, we are unable to, and do not, express an opinion on the accompanying financial statements and schedules taken as a whole. The form and content of the information included in the financial statements and schedules, other than that derived from the information certified by the trustee, have been audited by us in accordance with generally accepted auditing standards and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

[Signature of Firm]

[City and State]
[Date]

* Revision of illustrative report on page 91, paragraph 12.14, of the AICPA audit and accounting guide *Audits of Employee Benefit Plans*.

**Illustration of Auditor's Report on
Financial Statements—
Limited-Scope Audit in Prior Year***

Independent Auditor's Report

Addressee:

We have audited the accompanying statements of net assets available for plan benefits of XYZ Pension Plan as of December 31, 19X2 and 19X1, and the related statement of changes in net assets available for plan benefits for the year ended December 31, 19X2 and the statements of accumulated plan benefits as of December 31, 19X2 and 19X1, and the related statement of changes in accumulated plan benefits for the year ended December 31, 19X2. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as explained in the following paragraph, we conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As permitted by Section 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, investment assets held by ABC Bank, the trustee of the Plan, and transactions in those assets were excluded from the scope of our audit of the Plan's 19X1 financial statements, except for comparing the information provided by the trustee, which is summarized in Note X, with the related information included in the financial statements.

(continued)

* Revision of illustrative report on pages 92-93, paragraph 12.15, of the AICPA audit and accounting guide *Audits of Employee Benefit Plans*.

**Illustration of Auditor's Report on
Financial Statements—
Limited-Scope Audit in Prior Year** *(continued)*

Because of the significance of the information that we did not audit, we are unable to, and do not, express an opinion on the Plan's financial statements as of December 31, 19X1. The form and content of the information included in the 19X1 financial statements, other than that derived from the information certified by the trustee, have been audited by us and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

In our opinion, the financial statements, referred to above, of XYZ Pension Plan as of December 31, 19X2, and for the year then ended present fairly, in all material respects, the financial status of XYZ Pension Plan as of December 31, 19X2, and changes in its financial status for the year then ended in conformity with generally accepted accounting principles.

Our audit of the Plan's financial statements as of and for the year ended December 31, 19X2, was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules of (1) assets held for investment, (2) transactions in excess of X percent of the current value of plan assets, and (3) investments in loans and fixed income obligations in default or classified as uncollectible as of or for the year ended December 31, 19X2, are presented for purposes of complying with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 and are not a required part of the basic financial statements. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements for the year ended December 31, 19X2, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

[Signature of Firm]

[City and State]
[Date]

**Illustration of Auditor's Report on
Financial Statements—
Limited-Scope Audit in Current Year***

Independent Auditor's Report

Addressee:

We were engaged to audit the accompanying statement of net assets available for plan benefits of XYZ Pension Plan as of December 31, 19X2, and the related statement of changes in net assets available for plan benefits for the year then ended and the supplemental schedules of (1) assets held for investment, (2) transactions in excess of X percent of the current value of plan assets, and (3) investments in loans and fixed income obligations in default or classified as uncollectible as of or for the year ended December 31, 19X2. These financial statements are the responsibility of the Plan's management.

As permitted by Section 2520.103-8 of the Department of Labor's Rules and Regulations of Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note X, which was certified by ABC Bank, the trustee of the Plan, except for comparing the information with the related information included in the 19X2 financial statements and the supplemental schedules. We have been informed by the plan administrator that the trustee holds the Plan's investment assets and executes investment transactions. The plan administrator has obtained a certification from the trustee as of and for the year ended December 31, 19X2, that the information provided to the plan administrator by the trustee is complete and accurate.

Because of the significance of the information in the Plan's 19X2 financial statements that we did not audit, we are unable to, and do not, express an opinion on the accompanying financial statements and supplemental schedules as of or for the year ended December 31, 19X2. The form and content of the information included in the financial statements and supplemental schedules, other than that derived

(continued)

* Revision of illustrative report on pages 93-94, paragraph 12.16, of the AICPA audit and accounting guide *Audits of Employee Benefit Plans*.

**Illustration of Auditor's Report on
Financial Statements—
Limited-Scope Audit in Current Year** *(continued)*

from the information certified by the trustee, has been audited by us in accordance with generally accepted auditing standards and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

We have audited the statement of net assets available for benefits of XYZ Pension Plan as of December 31, 19X1 and, in our report dated May 20, 19X2, we expressed our opinion that such financial statement presents fairly, in all material respects, the financial status of XYZ Pension Plan as of December 31, 19X1, in conformity with generally accepted accounting principles.

[Signature of Firm]

[City and State]

[Date]

Illustration of Auditor's Report on Financial Statements of a Multiemployer Pension Plan Assuming Limited-Scope Audit*

Independent Auditor's Report

Addressee:

We were engaged to audit the statements of (identify) of XYZ Multi-employer Pension Plan as of December 31, 19X2 and 19X1 and for the years then ended. These financial statements are the responsibility of the Plan's management.

The Plan's records and procedures are not adequate to assure the completeness of participants' data on which contributions and benefit payments are determined, and the Board of Trustees did not engage us to perform, and we did not perform, any other auditing procedures with respect to participants' data maintained by the sponsor companies or individual participants.

Because of the significance of the information that we did not audit, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on these financial statements.

[Signature of Firm]

[City and State]

[Date]

* Revision of illustrative report on page 95, paragraph 12.17, of the AICPA audit and accounting guide *Audits of Employee Benefit Plans*.

Illustration of Auditor's Report on Financial Statements of a Trust Established Under an Employee Benefit Plan*

Independent Auditor's Report

Addressee:

We have audited the accompanying statement of net assets of ABC Pension Trust as of December 31, 19X2, and the related statement of changes in net assets and trust balance for the year then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statements are those of ABC Pension Trust, which is established under XYZ Pension Plan; the statements do not purport to present the financial status of XYZ Pension Plan. The statements do not contain certain information on accumulated plan benefits and other disclosures necessary for a fair presentation of the financial status of XYZ Pension Plan in conformity with generally accepted accounting principles. Furthermore, these statements do not purport to satisfy the Department of Labor reporting and disclosure requirements relating to the financial statements of employee benefit plans.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of ABC Pension Trust as of December 31, 19X2, and the changes in its net assets and trust balance for the year then ended in conformity with generally accepted accounting principles.

[City and State]

[Date]

[Signature of Firm]

* Revision of illustrative report on pages 95-96, paragraph 12.18, of the AICPA audit and accounting guide *Audits of Employee Benefit Plans*.

Illustration of Auditor's Report on Financial Statements of a Defined Benefit Plan Assuming Inadequate Procedures to Value Investments*

Independent Auditor's Report

Addressee:

We have audited the accompanying statements of net assets available for benefits and of accumulated plan benefits of XYZ Pension Plan as of December 31, 19X2, and the related statements of changes in net assets available for benefits and of changes in accumulated plan benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note X, investments amounting to \$_____ (_____ percent of net assets available for benefits) as of December 31, 19X2, have been valued at estimated fair value as determined by the Board of Trustees. We have reviewed the procedures applied by the trustees in valuing the securities and have inspected the underlying documentation. In our opinion, those procedures are not adequate to determine the fair value of the investments in conformity with generally accepted accounting principles. The effect on the financial statements and supplemental schedules of not applying adequate procedures to determine the fair value of the securities is not determinable.

(continued)

* Revision of illustrative report on pages 97-98, paragraph 12.20, of the AICPA audit and accounting guide *Audits of Employee Benefit Plans*.

**Illustration of Auditor's Report on
Financial Statements of a Defined Benefit Plan Assuming
Inadequate Procedures to Value Investments** *(continued)*

In our opinion, except for the effects of the procedures used by the Board of Trustees to determine the valuation of investments as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial status of XYZ Pension Plan as of December 31, 19X2, and the changes in its financial status for the year then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The additional information presented in supplemental schedules of (1) assets held for investment, (2) transactions in excess of X percent of the current value of plan assets, and (3) investments in loans and fixed income obligations in default or classified as uncollectible as of or for the year ended December 31, 19X2, is presented for purposes of complying with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 and is not a required part of the basic financial statements. That additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements for the year ended December 31, 19X2; and in our opinion, except for the effects of the valuation of investments, as described above, the additional information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

[Signature of Firm]

[City and State]

[Date]

Employee Benefit Plans Committee
(1988–1989)

ANDREW J. CAPELLI, <i>Chairman</i>	MELISSA KRAUSE
STEVEN A. COOK	HARVEY NULAND
RICHARD COVERT	GILBERT K. REEVES
DALE GERBOTH	RICHARD SCHWARTZ
GARY T. GRAY	RANDI STARR
MANNON KAPLAN	RICHARD M. STEINBERG

PATRICK L. MCNAMEE, <i>Director</i> <i>Audit and Accounting Guides</i>	IAN A. MACKAY, <i>Technical Manager</i> <i>Federal Government Relations</i>
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